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# Mini Review

# BRICS' Economic and Trade Cooperation: Perspectives on a Potential Intra-BRICS Preferential Trade Agreement

Torres

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# BRICS' Economic and Trade Cooperation: Perspectives on a Potential Intra-BRICS Preferential Trade Agreement

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**Abstract**

Although trade within BRICS has grown considerably during the past decade, rates of growth have fallen significantly in recent years. There is room, thus, for new mechanisms to further explore trade complementarities and productive integration within BRICS—including a potential preferential trade agreement. As such, this article aims to (1) provide an overview of the trade pattern of each BRICS country, considering the evolution and distribution of intra-BRICS trade in goods in the past decade (2008–2018) and (2) survey recent impact simulations of an intra-BRICS preferential trade agreement, addressing tariff and non-tariff measures to be considered by a potential PTA.

**Keywords**: BRICS; Preferential trade agreement; Economic cooperation.

## 1. INTRODUCTION

Since the BRICS' formative stages, economic and trade cooperation has been highlighted as a relevant driver of inclusive and sustained growth in developing countries, as stated by numerous BRICS Summit Statements. Traditionally, special emphasis has been given to BRICS concertation within the World Trade Organization (WTO) and commitment to a stable and equitable multilateral trading system. In 2009, for instance, following the Ekaterinburg Summit, the Joint Statement of BRICS' Leaders "urged the international community to keep the multilateral trading system stable and curb trade protectionism."

In 2011, the First Meeting of BRICS Trade Ministers marked increased economic and trade cooperation among BRICS, with the goal of "proposing an institutional framework and concrete measures to expand economic cooperation both among BRICS countries and between BRICS countries and all developing countries" (Ministerial Meeting of the BRICS Trade Ministers, 2011). In 2013, the Third Meeting of BRICS Trade Ministers, in Durban, was followed by the launch of the Trade and Investment Cooperation Framework, under the newly founded Contact Group on Economic and Trade Issues (CGETI).

As such, despite BRICS'` traditional emphasis on promoting trade liberalization through multilateral negotiations, a series of mechanisms have been devised to facilitate intra-BRICS economic and trade cooperation in past years, especially, considering the stalemate in multilateral negotiations following the breakdown of the Doha Round (Hopewell, 2017). These cooperation mechanisms focus on initiatives ranging from information exchange on trade and investment policies among BRICS to trade promotion and facilitation (BRICS Business Council, 2019). More recently, during the 9$^{th}$ Meeting of BRICS Trade Ministers in Brasilia, this trend has translated into a Memorandum of Understanding between BRICS countries' Trade and Investment Promotion agencies (2019), focused on the exchange of experiences and best practices (Joint Communiqué of the Ninth Meeting of BRICS Trade Ministers, 2019). However, little attention has been given in past years to the potential negotiation of a preferential trade agreement (PTA) among BRICS countries, as a tool to further explore trade complementarities and productive integration.

In the current global scenario of growing protectionism and unilateral trade restrictions, the topic of a BRICS preferential agreement is gaining relevance and has been the object of recent impact simulations carried out by Brazilian government-advisory think tanks, in the context of the Brazilian Pro-Tempore Presidency of BRICS in 2019. The topic of a potential preferential trade agreement has been on the BRICS' agenda at least since 2015, considering the last stage of a gradual process of increasing BRICS' economic and trade cooperation. Even though intra-BRICS trade volume has grown considerably since 2008, rates of growth have been slowing down since 2010—in this context, it is argued that a PTA could have positive impacts in terms of welfare, employment, income, and economic growth, although sensitive issues and structural imbalances would need to be addressed.

In order to overview the structure of intra-BRICS trade and identify patterns and imbalances, this article will rely on the manipulation of data extracted from the World Integrated Trade Solution (WITS), retrieved from international organizations and national statistical offices. The analysis will cover trade flow data from the period 2008–2018—corresponding to the institutionalization of BRICS—and will center on the evolution of intra-bloc exports and imports of each BRICS country, their distribution and composition in terms of product value addition. Subsequently, in order to evaluate the macroeconomic impact of liberalization through a potential BRICS PTA, a survey will be conducted based on recent literature on key impact simulations that anticipate the macroeconomic effects of tariff reductions within BRICS. However, taking into account the growing relevance of non-tariff barriers to trade globally and within BRICS (WTO, 2012)—particularly technical, sanitary, and phytosanitary measures—recommendations will be outlined toward a wide-ranging PTA that transcends tariff negotiations and promotes cooperation on "behind-the-border" topics, in line with last generation trade agreements.

## 2. THE ANATOMY OF INTRA-BRICS TRADE

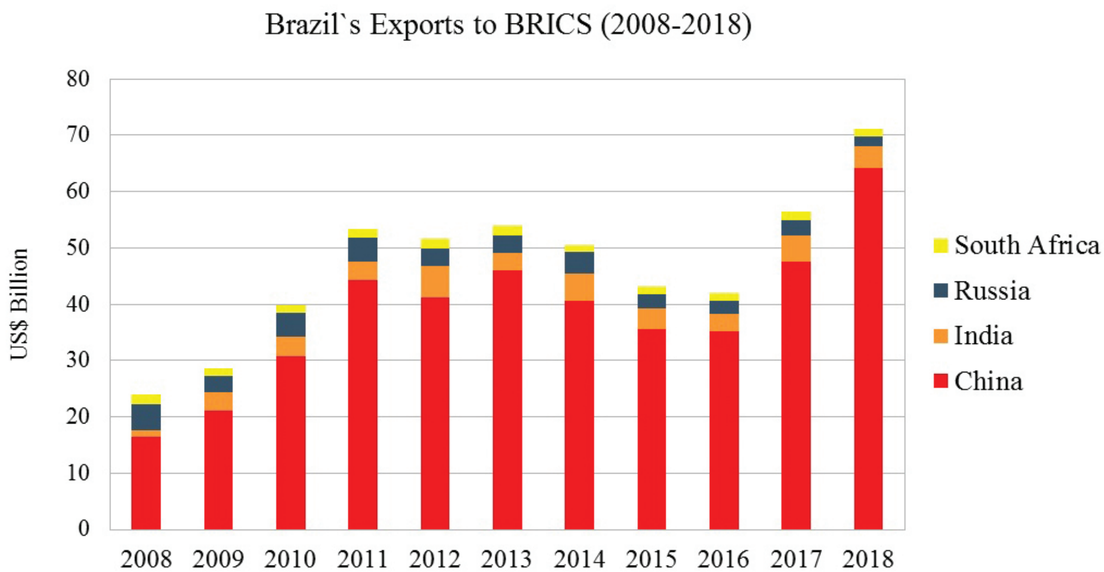
In the past decade, trade within BRICS more than doubled, rising from US$ 168 billion in 2008 to US$ 353 billion in 2018, when it peaked. Given the high relevance of commodity trade within BRICS countries, the commodity boom experienced until 2013–14 played an important role in this overall growth (Belke *et al.*, 2017). As such, in 2015 and 2016, intra-BRICS trade fell, recovering an upward trend in the following years. When comparing intra-BRICS trade in 2008–2018 with trade among BRICS in the preceding decade, it can be noticed that the rates of growth have fallen significantly after 2012, as some BRICS countries have concentrated trade flows on partners such as the United States and the European Union. Moreover, a key trait of intra-BRICS trade, as detailed in the country profiles below, is the centrality of China as major exporter and importer, currently representing the main trading partner of every BRICS country.

### 2.1 Brazil

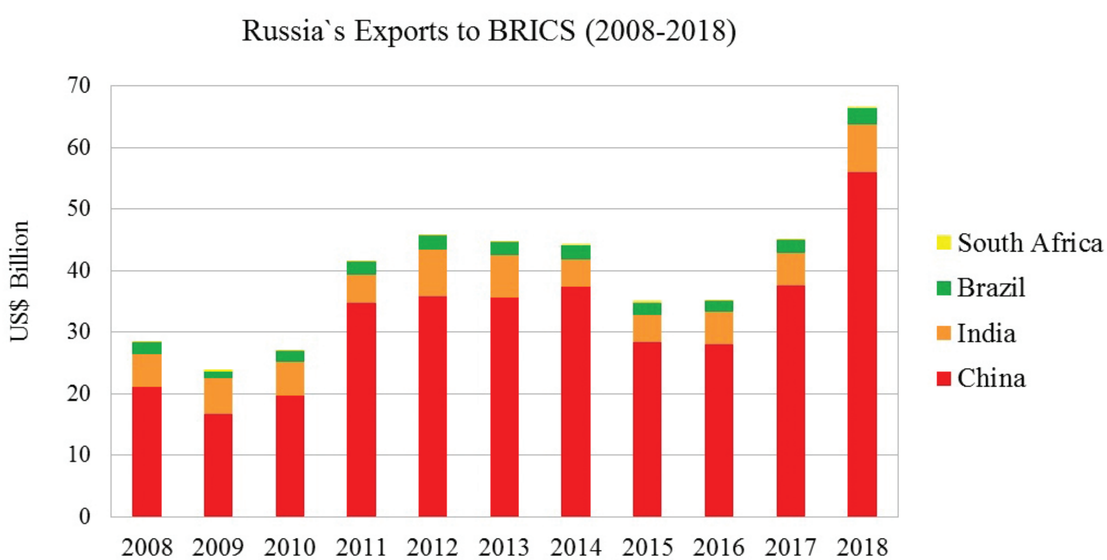
Brazil's trade with BRICS has grown considerably since 2008—to a large extent driven by the Chinese growth. As Brazil's main trading partner since 2009, China absorbed 26.7% of Brazil's total exports in 2018, amounting to US$ 64.2 billion. This value represented 90% of Brazilian total exports to all BRICS countries the same year, which reinforces China's weight in Brazil's intra-BRICS trade.

However, one of the main concerns related to the structure of Brazil's trade with China, as well as to Brazil's overall trade profile, refers to a historically high concentration of exports on low value-added primary commodities. In the case of China, Brazilian exports are largely concentrated on soybeans, iron ore, and oil, which accounted for 83% of Brazilian exports to China in 2018. While this profile is influenced by domestic limitations in labor productivity and industrial capacity (Rios and Veiga, 2018), it can also be traced to Chinese tariff structure and technical and sanitary regulations—barriers that would need to be addressed by a potential BRICS preferential trade agreement.

While Brazilian exports to India are similarly highly concentrated on primary commodities, it is noteworthy that exports to Russia and South Africa feature a relevant share of manufactured and semi-manufactured goods made in Brazil—mainly vehicles' parts and accessories—even though in comparatively low volumes. In 2018, Brazil sustained a trade surplus with every BRICS country except Russia.




**Source:** WITS (n. d.)

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### 2.2 Russia

In terms of volume and distribution, the evolution of Russia's trade within BRICS follows a pattern similar to Brazil's. Peaking in 2018, Russian trade flows with BRICS countries grew considerably between 2008 and 2018, largely driven by Chinese exports and imports. However, while China absorbed 84% of Russian exports to BRICS in 2018 (US$ 56 billion), this amounted to only 12% of Russia's total exports worldwide the same year. In fact, BRICS countries combined absorbed only around 14% of Russia's total exports in 2018, which were mostly directed to EU markets.

Regarding the composition of bilateral trade, Russian exports to China are mostly concentrated in oil (73% of exports in 2018), while imports center on Chinese electrical machinery and mechanical appliances. Following China, India ranks as Russia's second top export destination within BRICS—importing not only oil, but also sizable volumes of Russian precious stones and metals, as well as industrial machinery. In 2018, Russia sustained a trade surplus with every BRICS country except South Africa.

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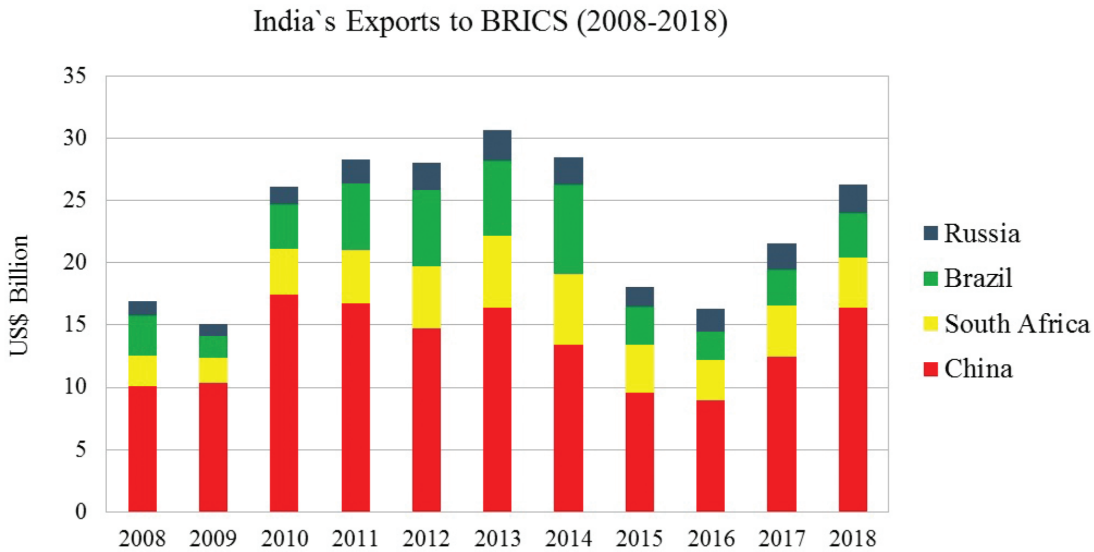



**Source:** WITS (n. d.)

### 2.3 India

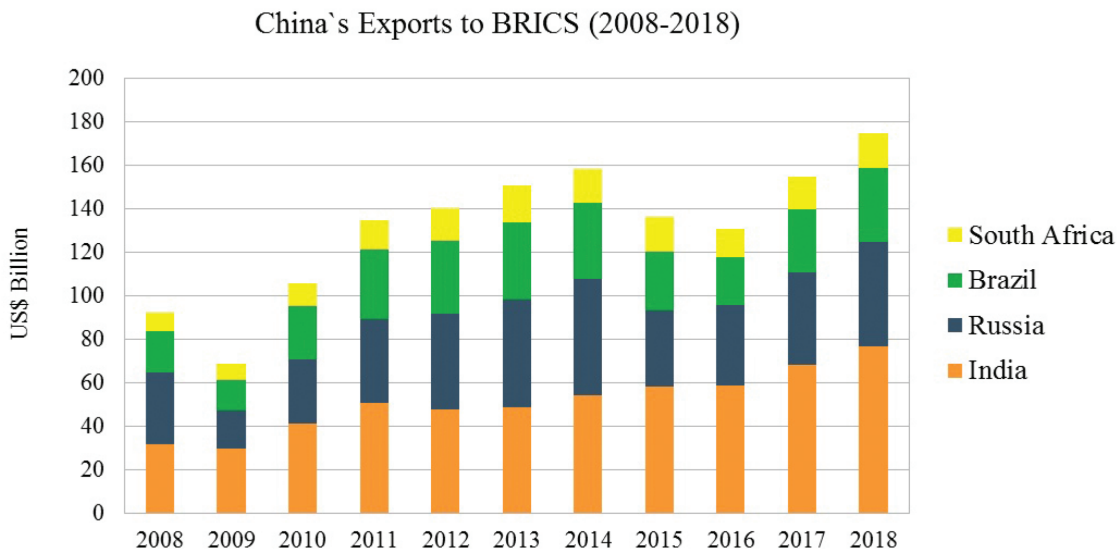
Different from Brazil and Russia, India's intra-BRICS trade is more balanced and diversified, even though China still plays a preponderant role. It is also noteworthy that, different from Brazil and Russia, India's exports to BRICS peaked in 2013, when they reached US$ 30.6 billion. In 2018, India's intra-BRICS exports shrunk to US$ 26.3 billion, 62% of which were directed to China—followed by South Africa, Brazil, and Russia as top export destinations. The total amount directed to BRICS countries, however, represents only around 8% of India's total exports. Although China represents India's main trading partner when considering both exports and imports, India's top export destination globally is not China, but the United States and the United Arab Emirates.

In terms of products, India's trade with China features a profile similar to that of Brazil, highly concentrated on primary commodities: while exports concentrate on oil, organic chemicals, cotton, and ores, imports from China center on manufactured goods such as electrical machinery and mechanical appliances. India's exports to other BRICS countries feature higher degrees of diversification, comprising products such as vehicles' parts and accessories and pharmaceutical products (to South Africa and Russia). It is noteworthy that, in 2018, India sustained a trade deficit with every BRICS country, notably with China: a US$ 58 billion deficit that has underpinned multiple accusations against alleged Chinese unfair trade practices (Kalirajan and Paudel, 2015), and that would need to be addressed by a potential BRICS PTA.

### 2.4 China

China's intra-BRICS export volume is significantly higher than the other BRICS countries, reflecting the massive scale of Chinese export-oriented growth in the past decades (Liu *et al.*, 2019). As such, Chinese intra-BRICS exports peaked in 2018 at almost US$ 175 billion—approximately the sum of Brazil's, Russia's, India's, and South Africa's total intra-BRICS exports. Although China's exports to BRICS are relatively balanced between each country, India receives the largest share (44% in 2018). It is noteworthy that, despite its scale, exports to BRICS account for only 7% of Chinese total exports, mostly directed to the United States, East Asian countries, and the European Union.

Based on the trade structure and composition observed in China's imports from BRICS countries, it can be stated that the BRICS play an important role in Chinese food and energy security strategies, representing relevant sources of energy commodities (especially oil), agricultural goods, and minerals (García, 2014). On the other hand, Chinese exports to all BRICS countries clearly concentrate on goods with higher value-added and technological content: electrical machinery and mechanical appliances, particularly, mobile phones, data-processing machines, semiconductors (especially to India), and vehicles' parts and accessories. In 2018, China sustained a trade deficit with every BRICS country except India.

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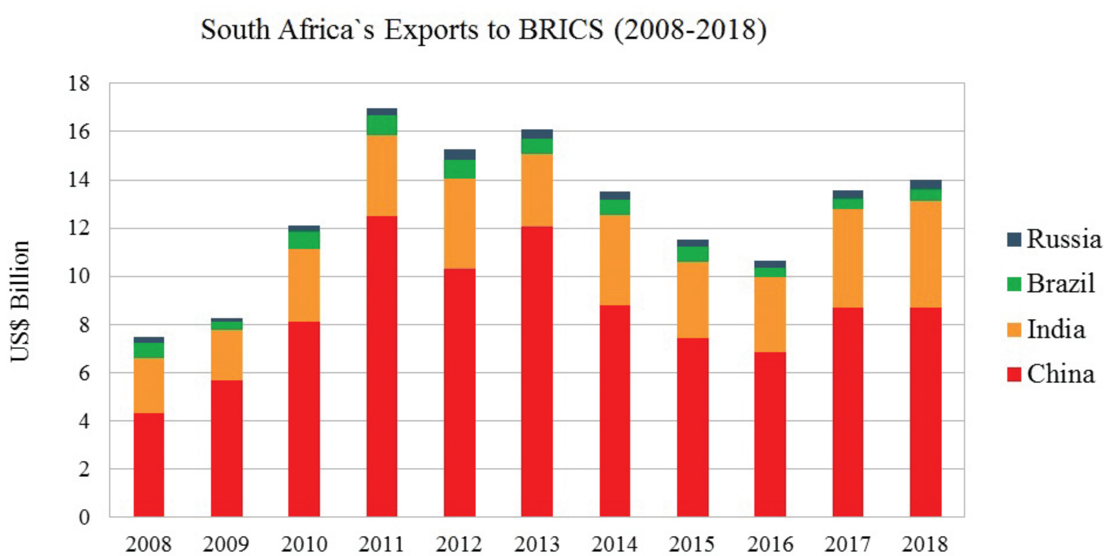


**Source:** WITS (n. d.)

## 2.5 South Africa

South Africa's exports within BRICS peaked in 2011 at almost US$ 17 billion, falling to around US$ 14 billion in 2018—when they represented 14.8% of South Africa's total exports. It is noteworthy that, even though China stands as South Africa's main export destination, India also absorbs a large share of South Africa's intra-BRICS exports (32% in 2018). In terms of volume, considering the gap between South Africa's GDP and the other BRICS' economic output, it is unsurprising that South Africa's export volume stands at lower levels vis-à-vis other BRICS.

Regarding the composition of bilateral trade, South Africa's exports to China also concentrate on primary commodities, such as ores, iron, steel, and copper, while imports are focused on electrical machinery and mechanical appliances. South Africa's trade with India follows a similar value-added structure: while exports to India concentrate on ores and wood pulp (but mostly oil), imports center on vehicles' parts and accessories and pharmaceutical products. In 2018, South Africa sustained a trade deficit with every BRICS country except India.

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### 3. PERSPECTIVES ON A POTENTIAL INTRA-BRICS PREFERENTIAL TRADE AGREEMENT

The topic of a possible “free-trade zone” within BRICS has been discussed at the highest levels at least since 2015, when Russian Deputy Economic Development Minister stated that such an agreement could be feasible “within 5 years” (The BRICS Post, 2015). On that occasion, it was noted that competition among BRICS in certain sectors could pose obstacles to this initiative—particularly within oil trade—although recognizing that a well-designed agreement could maximize trade complementarities and ultimately result in positive long-term outcomes for all BRICS. However, during the implementation of a potential intra-bloc liberalization process, international experience shows the importance of ensuring that tariffs are reduced gradually, avoiding shocks and allowing sensitive sectors to adapt smoothly in each country (ADB, 2008). In Brazil, for instance, liberalization in traditionally protected sectors, such as textiles and capital goods, is a key concern, requiring a gradual, predictable, and pre-announced tariff reduction schedule to minimize adverse effects on employment and allow the reallocation of labor (Kalout *et al.*, 2018; Stiglitz, 2005).

In order to evaluate the costs and benefits of a possible intra-BRICS preferential trade agreement, Jensen and Sandrey (2013) ran a simulation based on possible scenarios, including a hypothetical 50% reduction of all tariffs imposed within intra-BRICS trade[1]. In this scenario, simulations found that such a tariff reduction could result in significant welfare gains, especially for South Africa, which would experience a potential 1.66% increase in GDP, mainly as a result of increased export-oriented gold production, especially for Indian markets. Accordingly, South Africa would hypothetically experience significant gains in both skilled and unskilled labor (Jensen and Sandrey, 2013). The simulation also finds an expected increase in agricultural exports from South Africa and Brazil, especially processed sugar exports—however, at the expense of Russian and Indian sugar production.

More recently, as part of activities mandated by Brazilian Pro Tempore BRICS Presidency in 2019, government-advisory think tanks have engaged in applied research on strategic topics aimed at strengthening BRICS’ economic and trade cooperation. As such, the Institute for Applied Economic Research has recently conducted similar simulations aimed at assessing the impact of a potential intra-BRICS PTA. In this simulation, tariffs are expected to be gradually eliminated (100% reduction) throughout a period of 10 years. As per Jensen and Sandrey’s simulation, it was found that South Africa is expected to experience the largest welfare gains, in terms of GDP (3.3%), investment (12.7%), and average income (4.36%), while Russia’s GDP is expected to decline by 0.3% as a consequence of full liberalization. In terms of exporting volume, Brazil is expected to experience the largest increase of 11.3% (Ribeiro, 2019). In both simulations, having in mind the potential negative impacts for certain sectors and countries of “across-the-board” tariff reductions, it becomes evident that a potential BRICS PTA would require careful negotiation and special measures for sensitive sectors.

Beyond tariff reductions, it must be noted that such a PTA would largely benefit from addressing non-tariff barriers to intra-BRICS trade. Within the current global landscape of multiple intertwined preferential trade agreements with expanded thematic coverage, often described as the “spaghetti bowl” phenomenon, it is noteworthy that PTAs tend to encompass a wide variety of “behind-the-border” topics beyond tariff reductions, including provisions on regulatory cooperation and trade facilitation, as well as disciplines on emerging fields such as e-commerce and data protection (WTO, 2012; WTO, 2018). Considering the cooperation activities already carried within the BRICS’ Contact Group on Economic and Trade Issues, provisions on non-tariff barriers within a BRICS PTA could evolve from CGETI’s work on trade and investment facilitation and e-commerce, for instance.

In particular, a potential intra-BRICS PTA would benefit from addressing technical, sanitary, and phytosanitary barriers to trade, having in mind the enduring obstacles faced by exporters in accessing some BRICS markets due to conflicting standards and product regulations, which may, in some cases, perpetuate structural imbalances. As discussed in the previous section, a key imbalance in intra-BRICS trade refers to the concentration of some countries’ exports on low value-added primary commodities, such as Brazil’s and South Africa’s. In the Brazilian case, exports of higher-value-added goods to China—especially processed animal protein—face long-standing sanitary restrictions, in addition to the so-called

1. It is noteworthy that such general equilibrium simulations, based on the GPTA model (Global Trade Analysis Project), feature inherent limitations—insofar as they assume perfectly competitive markets and do not consider factors such as technological change, economies of scale, and frictions in the reallocation of labor from contracting sectors to expanding sectors (Wu *et al.*, 2013).

"tariff escalations" that facilitate the import of raw materials while restricting higher value-added imports. Beyond solving tariff restrictions, a potential BRICS preferential trade agreement could offer an opportunity to strategically address the resolution of technical and sanitary barriers to trade among BRICS, promoting the harmonization of standards and regulations.

## 4. CONCLUSION

Despite the traditional emphasis of BRICS' Summit Statements in committing to an open and stable multilateral trading regime, the stalemate of WTO negotiations has contributed to an increased emphasis on initiatives aimed at strengthening intra-BRICS trade and economic cooperation. In 2019, this trend translated into the signing of an MoU between BRICS Trade and Investment promotion agencies, during the 9th Meeting of BRICS Trade Ministers. However, although trade within BRICS countries has grown considerably between 2008 and 2018, rates of growth have been decreasing in recent years. There is room, thus, for new mechanisms to further explore trade complementarities and productive integration within BRICS—including a potential preferential trade agreement.

Such an agreement should reflect each country's trade priorities and structure, considering the characteristics of intra-BRICS trade—particularly the centrality of China as the main trading partner of each BRICS country. This feature is associated with some imbalances, such as India's remarkable trade deficit with China, or the concentration of Brazilian, South African, and Indian exports to China on low value-added primary commodities. These imbalances should be addressed by a potential BRICS PTA through both tariff and non-tariff measures: beyond promoting gradual and predictable tariff reductions, a BRICS PTA should address non-tariff barriers to trade through regulatory cooperation, and trade facilitation measures, as well as cooperation on key topics such as e-commerce—evolving from initiatives already carried within BRICS' CGETI. As simulations have already demonstrated, such an agreement is expected to generate substantial welfare gains in terms of employment, average income, and GDP growth for BRICS countries—especially, South Africa—even though careful attention must be given to sensitive sectors, which might require gradual liberalization to allow proper labor reallocation.

In a global scenario of growing protectionism and contracting trade growth, the negotiation of an intra-BRICS preferential trade agreement would send a clear message of commitment to open and rules-based trade—complementing BRICS' traditional stance on strengthening the multilateral trading system and strengthening ongoing initiatives on trade promotion and facilitation.

**Conflict of Interest**

None.

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